



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 12/30/1999

GAIN Report #SF9040

South Africa, Republic of

Retail Food Sector Report

1999

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Report Highlights:

Despite the economic slowdown, the consequent decline in the value of the rand vis-a-vis the dollar, and strong competition from other suppliers, opportunities for U.S. retail food products are growing in South Africa.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report

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I. MARKET SUMMARY

Despite the recent economic slowdown and the accompanying slide in the value of the Rand vis-a-vis the dollar, South Africa continues to offer immediate and long-term opportunities for U.S. exporters and investors with the right products, resources, ideas and commitment.

South Africa is the gateway of the rest of the Southern Africa with an area five times larger than the United Kingdom. South Africa possesses a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. U.S. exports to South Africa in 1997 totaled US\$ 3 billion, down 34% from 1996 largely as a result of a strong dollar vis-a-vis the Rand. South Africa nevertheless receives 47% of all U.S. exports to Sub-Saharan Africa. U.S. imports of South African goods rose from US\$ 2.32 billion in 1996 to US\$ 2.50 billion in 1997, an increase of 7.8%.

South Africa has a market oriented agricultural economy with exports amounting to nearly 40% of the gross value of agricultural production while imports accounting for more than 25%. The U.S. plays a role in the market supplying more than 10% of the imports and taking nearly 4% of the exports. Total U.S. agricultural fish and forestry exports to South Africa jumped from about \$178 million in 1994 to \$295 million in 1995 and \$324 million in 1996, but fell back to \$255 million in 1997, mainly due to the devaluation. It is even more encouraging that imports showed strong growth during good local agricultural seasons, because traditionally, South Africa was only an occasional importer during years of drought. According to official source's, expenditure's on food products in South Africa is 91% in the retail/wholesale sector and 9% Catering.

Approximately 90% of South Africa's population is found in areas surrounding the cities of Johannesburg, Cape Town, Durban, Pretoria and Port Elizabeth, which represent the country's major urban areas. South

Africa offers U.S. exporters a wide variety of methods to distribute and sell their products. These include using an agent or distributor; selling through established wholesalers or dealers; selling directly to department stores or other retailers; or establishing a branch or subsidiary with its own sales force. When appointing a South African distributor, U.S. exporters should take care to find out if the distributor handles a competing product. Slightly less than 50% of total merchandise sales pass through both a wholesaler and a retailer before reaching the final consumer; 40% of sales are from the manufacturer to the retailer, bypassing the wholesaler; 5% from the wholesaler directly to the consumer, and 5% bypass both the wholesaler and the retailer, reaching the consumer directly from the producer or the importer. Many South African manufacturers have established wholesale and retail outlets. In the past few years there has been a considerable increase in store numbers. Under the apartheid-era, store numbers and trading licences were tightly controlled.

In South Africa's very competitive marketplace, it is essential that the U.S. exporters choose or locate the correct agent or distributor. Evidence shows that the most successful U.S. company ventures are those that have at least researched their market thoroughly before engaging in a search for agents or distributors. Once contacts are established, it is often advisable to visit South Africa, since firsthand knowledge of the market and consumer is highly useful. In South Africa the terms "Agent" and "Distributor" have a very specific meaning. Agents work on a commission basis after obtaining orders from customers. Distributors buy and sell products directly to the consumer. It is common to appoint a single agent capable of providing national coverage either through one office or a network of branch offices. In addition to their role as the local representatives of U.S. exporters, agent's should be able to handle the necessary customers clearance, port and rail charges, documentation, warehousing, and financing arrangements. Local agents representing foreign exporters outside South Africa who export goods to South Africa, are fully liable under the South African Import Control Law for all regulations and controls imposed on the foreign exporters. Local agent's are required to register with the Director of Import and Export Control of the Department of Trade and Industry. It is important for a U.S. exporter to maintain close contact with the local agent to track changes in importing procedures and to ensure that the agent is effectively representing the sales interest of the exporter.

Advantages and Challenges Facing Sales of U.S. Products in South Africa:

Advantages	Challenges
South Africans consumers view U.S. products as high quality.	Lack of brand awareness.
South African importers are seeking suppliers who can offer a reliable source of top quality products at competitive prices.	Choose correct food Agent or distributor.
The growing retail industry, which is shown by the increase in store numbers, needs imported food products.	Lack of promotional support and education on products.
South Africans are slowly developing a taste for western products.	Competition from other countries and new competition entering the market.

II. ROAD MAP FOR MARKET ENTRY

A. Supermarket

Entry Strategy

There is a competitive marketing environment in South Africa and an increasing concentration of power in the hands of the supermarket groups. The big retail groups all differ in terms of product range and clientele. Shoprite-Checkers/OK and Spar, for example, are very strong in the black markets whereas Woolworth is stronger in the smaller "up-market" segment. Most sell both their own-label products as well as manufacturer's brands. Required imported products are imported either directly or through Agents and Importers, depending on the products in question. One characteristic that these retail groups have in common is that they all enjoy enormous bargaining power. They are all able to dictate their buying terms to suppliers who are expected to deliver products to central depots or warehouses. Suppliers pay a nominal fee for this warehouse allowance. The groups then take care of the distribution from these central depots to the individual stores. There are certain lines which do not follow this route. Where suppliers have their own efficient transport system, direct deliveries are made. The retail industry prefers to buy directly from local manufacturers. Even for imported products some supermarkets prefer to deal directly with U.S. companies, because an import agent or distributor acting as a middlemen can add up to 30% to the cost of the product. The result is that the supermarket cannot make the required margins.

Market Structure

The basic flow for imported food products is the following:

U.S. EXPORTER >>>>AGENT, DISTRIBUTOR, IMPORTER>>>>SUPERMARKETS

The market structure is covered in detail in other sections of this report.

Major Supermarket Profiles

Retailer Name and Outlet Type	Ownership	Turnover (\$M)	Number of Outlets	Location	Purchasing Agent Type
Pick n Pay Group:	Local	2 225	328	Nationwide	Direct/Importer
P n P Hypers	Local	533	14	Local	Direct/Importer
P n P Supers	Local	1 133	108	Local	Direct/Importer
P n P Family	Local	250	49	Nationwide	Direct/Importer
Score & Ritevalu	Local	167	130	Local	Direct/Importer
7-Eleven Africa	International	17	27	Local	Direct/Importer

Shoprite Holdings: (Hyperama, Shoprite, Checkers, OK, Sentra and 8-till-late)	International	2 100	396	Nationwide	Direct/Importer
Woolworths	Local	333	70	Local	Direct/Importer
Spar Group	Local	1 483	658	Nationwide	Direct/Importer

For the most part, the chains offer much the same range of products and brands. Gaining a competitive edge through image and service becomes a major preoccupation. The retailers work hard at establishing their own particular appeal. Some, like Woolworths and Spar, do this by targeting a particular shopper segment, such as high-income group. Others, like Pick n Pay and Shoprite Checkers group, go head-to-head more on price and "shopping experience".

B. Convenience Stores:

Entry Strategy

Most of the convenience stores in South Africa are owned by major wholesalers, and such contact has to be made direct with the wholesaler concerned. Convenience stores operate on open extended shopping hours.

Market Structure

U.S. EXPORTER >>AGENT, DISTRIBUTOR, IMPORTER>>WHOLESALE CLUBS>>CONVENIENCE STORES

Major Convenience Type Store Profile

Retail Name and Market Type	Ownership	Turnover (\$M)	Number of outlets	Location	Purchasing agent type
Foodies (convenience)	Local	(Sales included in part of Shoprite under Supermarkets)	1	Nationwide	Direct/Importer
8-till-late (convenience)	Local		16	Nationwide	Direct/Importer
7-Eleven Africa (convenience)	International	17	27	Nationwide	Direct/Importer

Seven-Eleven Africa is operating in three of the nine provinces of South Africa, namely Gauteng Province, Eastern Province and Kwazulu Natal. Pick n Pay holds 60% share in Seven-Eleven Africa with Seven-Eleven Corporation holding 40%. Seven Eleven is negotiating with Pick n Pay to buy back their share. All of the Convenience Stores mentioned above were just introduced after the first democratic elections in 1994 by the major retail groups, recognizing that their mainstream brands like Pick n Pay and Shoprite would not easily be extended into the emerging markets. Additionally, most gas stations in South Africa have convenience stop shops.

C. Traditional Markets

Entry Strategy

Food Stores in South Africa range from highly sophisticated supermarkets at one end to primitive little stalls and street corner selling points (informal/independent market) . Previously the black portions of South Africa were virtually unserved in terms of retail infrastructure. Informal market retailers cater to their own segments of the market ranging from cafes, spaza shops, tuck shops, hawkers, shebeens and taverns, which cater mostly to black population in the townships. Hawkers or street corner selling are totally mobile and can follow their market. Wholesalers play a very important role in South Africa, in particular in supplying independent retailers. Some of the major importers also operates as wholesalers, but the largest wholesalers are run by major retail groups.

Market Structure

U.S. EXPORTER >>AGENT, DISTRIBUTOR, IMPORTER>>WHOLESALE CLUBS>>RETAILER>>TRADITIONAL MARKETS

III. COMPETITION

The European Union, Zimbabwe, Australia, Malaysia and other Asian countries are the main competitors for U.S. imports, varying widely by product. The U.S. is one of the major suppliers of wheat, poultry and rice to South Africa. South Africa's stable foods suppliers, such as meat, fish, vegetables, (coffee, cocoa and tea), and some of the rice are also brought in from neighboring countries.

Heavy promotion generates major sales for the Zimbabweans, who export meats and meat products, fresh fruits and vegetables, spices and spice products, maize, processed fruits and vegetables, sugar and food preparations. Australia is a significant export of food preparations, dairy products, oilseeds, edible oils and fats, and fish and crustaceans. Malaysia is significant in dried fruits and edible nuts, spices and spice products, oilseeds, edible oils and fats; and cocoa. Zimbabwe has the highest share of agricultural imports from Africa.

Market promotion from other countries is similar to that provided by USDA programs such as instore promotions, trade shows, supermarket training and trade missions.

IV. BEST PRODUCT PROSPECTS

A. Products Present in the Market which have Good Sales Potential

Among the current U.S. products are rice, wheat, corn, oilseeds, oil meals, plant oils (mainly sunflower oil).

B. Products not Present in Significant Quantities but which have Good Sales Potential

The best prospects for increasing future U.S. agricultural exports to South Africa will include, but not limited to, processed and consumer oriented products, wood and wood products, poultry products, pet food, and soybean meal. Demand for snack food and nuts is small but rapidly growing. South Africa offers market opportunities for various upscale prepared foods and consumer ready products, which are increasingly in demand as luxury imports by a growing number of affluent consumers.

C. Products Not Present in significant Quantities but which Have Good Sales Potential

Most retail food products may be imported into South Africa with little or no import restrictions. Apart from the requirements of the Import Control Regulations, the importation of some products is either totally prohibited or subject to inspection by other authorities and/or the production of special permits/licenses issued by these authorities, or may be imported by certain authorities only. These may include import permits, phytosanitary and fumigation certificates. Phytosanitary Certificates are generally not required for prepared or processed products. On the other hand the South Africa's Board of Tariffs and Trade has the authority to set tariffs, and may raise them if a South African producer claims that foreign competitors threaten its market dominance.

V. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to South Africa, please contact post at the following address:

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South African Importers lists are available from posts to exporters of U.S. food products. For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page on the worldwide web: <http://www.fas.usda.gov>.